

Message Text

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ACTION AF-18

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FM AMEMBASSY PRETORIA

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INFO AMCONSUL CAPE TOWN

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LIMITED OFFICIAL USE PRETORIA 0729

CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, SF

SUBJECT: SAG INTERIM BUDGET

SUMMARY: INTERIM BUDGET COVERING NEXT 7 MONTHS REFLECTS BULGING TREASURY AND FORTHCOMING ELECTION IN WIDE-SPREAD GRANT OF CONCESSIONS INCLUDING CEILING PLACED ON SALES TAX. FINANCE MINISTER DENIES POSSIBLE RAND DEVALUATION, PROMISES CONSERVATION MONETARY POLICY, AND CALLS ON PRIVATE BUSINESS TO HELP IN FIGHT AGAINST INFLATION. HE CONCLUDED WITH FAVORABLE ASSESSMENT OF SA'S ABILITY TO WITHSTAND CURRENT WORLD ECONOMIC UNCERTAINTIES. END SUMMARY.

1. ON FEB. 15, FINANCE MINISTER DIEDERICH'S PRESENTED "MIMI-BUDGET" (PART APPROPRIATION BILL) OF 2.7 BILLION TO COVER SAG OPERATIONS FOR NEXT SEVEN MONTHS UNTIL MAIN BUDGET INTRODUCED IN LEGISLATIVE SESSION FOLLOWING FORTHCOMING GENERAL ELECTION. BUDGET IS NOT RPT NOT INDICATIVE OF GOVT. ECONOMIC THINKING. RATHER IT REFLECTS BULGING TREASURY (PROJECTED 1973/74 REVENUES EXCEEDED BY ABOUT LIMITED OFFICIAL USE

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R 650 MILLION, PRIMARILY RESULT OF GOLD PRICES) AND

POLITICAL ADVANTAGES TO BE GAINED IN ELECTIONS.

2. DETAILS OF PROPOSED EXPENDITURES NOT RPT NOT YET AVAILABLE. ATTENTION, HOWEVER, IS FOCUSED ON CONCESSIONS VALUED AT R 149 MILLION WHICH INCLUDE:

A. PENSION, SOCIAL GRANT AND SOCIAL WELFARE IMPROVEMENTS (R 26 MILLION);

B. EARLY REPAYMENT OF 1968 LOAN LEVY (R 105 MILLION OF WHICH R 62 MILLION TO COMPANIES AND R 43 MILLION SS TO INDIVIDUALS);

C. INCOME TAX RELIEF TO COVER PARENTS OF STUDENTS AND MEDICAL/PLSURANCE EXPENSES (R 2 MILLION);

D. REDUCTION IN SALES DUTIES TO CEILING OF 20 DB PERCENT AS WELL AS REDUCTION ON SPECIFIC ITEMS ALREADY UNDER CEILING (R 16.4 MILLION).

3. IN COURSE OF BUDGET SPEECH, DIEDERICHs REJECTED POSSIBILITY THAT RAND WAS CANDIDATE FOR DEVALUATION. HE NOTED INCREASE IN SARB CREDIT. (UP ALMOST 150 PERCENT IN LAST YEAR TO R 759 MILLION) TO EXPLAIN CURRENT "MORE CONSERVATIVE MONETARY POLICY". WITH REGARD TO INFLATION, DIEDREICHs SAID FOURTH QUARTER PRICE INCREASES (PETROLEUM PRODUCTS IN PARTICULAR) HAD OFFSET EARLMAR IMPROVEMENTS AND PRODUCED 10 PERCENT INCREASE IN COST OF LIVING IN 1973. IN THIS CONNECTION HE QUESTIONED WHETHER PRIVATE BUSINESS WAS "IN ALL CASES MAKING AN ADEQUATE CONTRIBUTION TO THE STRUGGLE AGAINST INFLATION BY EXERCISING SUFFICIENT RESTRAINT".

4. DIEFERICHs CONCLUDED BY SAYING THAT ALTHOUGH SA COULD NOTNWPT NOT ESCAPE CURRENT WORLD ECONOMIC UNCERTAINTIES, "OUR POLITICAL AND ECONOMIC STABILITY, THE WEALTH AND DIVERSITY OF OUR NATURAL RESOURCES, THE SUTZL AND ADAPTABILITY OF OUR LABOR FORCE, THE RESOURCEFULNESS OF OUR CAPITAL MARKETS, THE ENTERPRISES AND ACUMEN OF OUR ENTREPRENEURS--ALL THESE GIVE GOOD GROUNDS FOR BELIEVING THAT WE CAN MEET AND OVERCOME THE CHALLENGES WHICH LIE AHEAD."

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5. LIKE THE BUDGET ITSELF, REACTIONS HAVE BEEN PRIMARILY POLITICAL. OPPOSITION SPOKESMEN HAVE STATED CONCESSIONS PRIMARILY DESIGNED TO GAIN VOTES RATHER THAN DEAL WITH BASIC PROBLEMS, AND HAVE SUGGESTED THAT CONCESSIONS SHOULD HAVE BEEN LARGER. MOST OBSERVERS, HOWEVER, ACCEPT THAT MINI-BUDGET IS ECONOMICALLY NEUTRAL AND THAT KEY QUESTIONS OF ECONOMIC POLICY AND DIRECTION RESERVED TO FULL

BUDGET DEBATE LATER IN YEAR.

6. COMMENT: THE MINI-BUDGET WITH SOMETHING FOR EVERYONE
CAN ONLY STRENGTHEN DOMINANT POSITION OF PRESENT NATIONALIST
GOVT. ON EVE OF ELECTIONS. WHILE NOT RPT NOT COMPLETELY
IGNORED, BLACKS STAND TO BENEFIT VERY LITTLE, BUT THEY,
OF COURSE, NOT RPT NOT VOTERS. INFLATION IS THE
MAJOR AREA IN WHICH ECONOMIC STABILITY OF GOVT. MIGHT BE
QUESTIONED. TO PREVIOUS CAUSES WHICH SAID TO BE BEYOND
CONTROL OF GOVT. (IMPORTED INFLATION, DROUGHT, OIL SITUATION),
DIEDERICH HAS NOW ADDED BIG BUSINESS TO WHOSE ACTIVITIES,
HE SAYS, THE MINISTER OF ECONOMICS AFFAIRS IS GIVING ATTENTION
IN TERMS OF THE MONOPOLISTIC CONDITIONS ACT.
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